LAW OFFICES OF HAROLD E. CAMPBELL, P.C.
910 West McDowell
Phoenix, Arizona 85007
Phone: (480) 839-4828
Facsimile: (480) 937-2245
heciii@haroldcampbell.com

Harold E. Campbell
State Bar No. 005160
Attorney for Debtor

IN THE UNITED STATES BANKRUPTCY COURT
IN AND FOR THE DISTRICT OF ARIZONA

In re: **VALUE VILLAGE THRIFT STORES, INC** Debtor.	Chapter 11 Proceeding Case No.2:21-bk-06112 PS PLAN OF REORGANIZATION UNDER CHAPTER 11 [SUBCHAPTER V]

The Debtor's Plan of Reorganization (the "**Plan**") is for a small business debtor under Chapter 11, Subchapter V, of the U.S. Bankruptcy Code.[1] 11 U.S.C. § 1190 requires that it include "(A) a brief history of the business operations of the debtor; (B) a liquidation analysis; and (C) projections with respect to the ability of the debtor to make payments under the proposed plan of reorganization."

A. Background for Cases Filed Under Subchapter V

A. Description and History of the Debtor's Business

Ross Kloeber ("Mr. Kloeber") is the 100% shareholder and president of Debtor. His parents formed this company in 1988 to operate a Thrift Store (Value Village) located at 5346 W Glendale. Ross Kloeber started working full time in 1989 at this location. His father opened a second store in 1992 located at 6626 W Camelback Rd. They operated the stores for the next 9 years and in 2001 Ross Kloeber's father stepped back due to health issues. As Ross Kloeber assumed more responsibility, his father was still active in the business side, and Ross

[1] Unless otherwise noted, all statutory and rule references are to the United States Bankruptcy Code, 11 U.S.C. § 101-1532; References to rules refer to the Federal Rules of Bankruptcy Procedure, unless indicated otherwise.

Kloeber was handling the store operations. In 2012 his father passed away due to heart failure. The added responsibility of handling the financial aspects of the business were initially overwhelming for Ross Kloeber due to not having prior experience and he made significant mistakes resulting in extra costs due to penalties and interest. Around this time, the stores started to see a decline in sales due to increased competition as Goodwill expanded their stores in the Phoenix area. As sales continued to decrease, Mr. Kloeber tried to actively increase sales by increasing merchandise production by adding employees to Debtor's sorting department. In 2016 Proposition 206 passed and Debtor saw a significant jump in wages and annual increases through 2020. Due to the increase in payroll and decrease in sales Debtor found itself in financial trouble. During this time - 2016 onward - Debtor fell behind on its payroll tax and sales tax payments and the penalties and interest started to climb dramatically. Debtor tried to make some adjustments but in hindsight it was too little too slow. At the end 2019 Mr. Kloeber had started to implement new computerized mapping systems into Debtor's trucking that would allow it to better manage its trucks and drivers. Debtor also implemented new POS system for the stores that had Self Checkouts to further reduce the payroll and have a better control over the store operations with the hope to get caught up on tax liabilities. However, in 2020 the pandemic began, and Debtor saw a sharp decline in sales starting in early February. Then in March Debtor was forced to close both stores due to the State issued order. Upon reopening in mid-May 2020, Debtor had to try to get both stores back open and employees re-hired. With this changes and re-hiring now being complete, Debtor is positioned to be profitable and have moderate growth in near future and fund a Plan.

Mr. Kloebler receives an annual salary of $60,000.00. A list of Debtor's assets, it's Schedule A/B, is attached hereto as Exhibit "1". A list of it's secured and unsecured debts (Schedules D, E, and F) is attached hereto as Exhibit "2". The total of it's unsecured debt is $92,492/00 per its Schedule F. Per their proofs of claim filed in this case, Debtor owes $2,442,089.17 to the Internal Revenue Service ("IRS") in secured, priority and unsecured tax debt and $1,859,740.28 to the Arizona Department of Revenue

("ADOR") in secured, priority and unsecured tax debt.

Since the bankruptcy filing, Debtor has continued to operate in the ordinary course of business. Debtor has substantially abided by the operating guidelines administered by the United States Trustee, including the filing of requested documents, interim operating reports and payment of post petition expenses as they become due. All Schedules have been filed and the initial Debtor interview with the United States Trustee has been held. The most recent post-petition operating report is attached hereto as Exhibit "3".

B. Assets, Liabilities, and Liquidation Analysis

To confirm the Plan, the Court must find that all creditors and equity interest holders who do not agree to the Plan will receive at least as much under the Plan as such claim and equity interest holders would receive in a chapter 7 liquidation. The chapter 7 liquidation analysis follows.

The Debtor's assets are described in Bankruptcy Schedule B. These assets value at $170,414.37. However, these assets are fully liened up to IRS and ADOR in an amount will over $1,5000,000. IRS and ADOR also have, in addition to their secured claims, priority tax claims in the amount of not less than $1,842,865. In the event the Debtor's case was converted to a Chapter 7, a Chapter 7 trustee would be appointed. He or she would liquidate the Debtor's assets. The funds obtained by the Chapter 7 trustee would be nowhere near enough to pay the tax liens and priority claims of IRS and DOR, which must be paid before anything was paid to unsecured creditors.

Thus, there would be no equity for the benefit of general unsecured creditors. Nonetheless, Debtor is dedicating the last two years of its Plan payments to the general unsecured creditors, so that unsecured creditors will receive a distribution that is better than unsecured creditors would receive in a Chapter 7 liquidation. The priority wage claims listed in Part 1 of Debtor's Schedule F were paid in full pursuant to this Court's Order of August 12, 2021, and thus will not receive any payments under this Plan.

C. Ability to make future plan payments and operate without further reorganization

The Plan proponent must show that it will have enough cash flow over the life of the Plan to make the required Plan payments and operate the debtor's business. Exhibit "3" is Debtor's last operating statement filed with the Court. Income and expense projections for the Debtor for the next 3 years will be filed as a supplement to this Plan or an Amended Plan. These projections set forth will be prepared by the Debtor's principal, Ross Kloeber. They are based upon the information available to him at this point in time. The further into the future we go the more unreliable estimates of this nature are, as a result of the numerous factors that can change over time. At best, these figures should be considered to be Mr. Kloeber' best educated estimate at this time. The actual numbers could be substantially higher, or substantially lower. As the expenses being more or less set, the primary factor which could affect the projections is seasonal nature of the Debtor's business and unforeseen forces of nature that directly affect the Debtor's business.

D. Mechanics of Debtor's Plan

ARTICLE 1: Summary

This Plan of Reorganization under chapter 11 of the Bankruptcy Code, Subchapter V, proposes to pay creditors from Debtor's income over the next 3 years. As will be shown below, Debtor has submitted Offers in Compromise to both the IRS and ADOR. Debtor's plan payments for the first two years will be used to pay administrative expenses and the Offer in Compromise amounts to IRS and ADOR. The payments for the remaining 12 months of Debtor's Plan will be used to pay Class 7 general unsecured creditors.

Payment of administrative expenses and priority claims. This Plan also provides for full payment of certain administrative[2], claims over the term of the Plan in the first two years.

Your rights may be affected. You should read these papers carefully and discuss them with your attorney, if you have one. (If you do not have an attorney, you may wish to consult one.)

All creditors should refer to Articles 2 of this Plan for information regarding the precise treatment of their claim.

ARTICLE 2: Classification of Claims and Interests

Class 1 -Costs of Administration of this Case

a. Nature of Claim:

Currently, it is anticipated that there will be 2 administrative claims unpaid at confirmation. The first claim will be the attorney's fees owed to Harold E. Campbell P.C. All fees due to Harold E. Campbell PC will be paid pursuant to an Application for Attorney's Fees and Costs that will be submitted to the Court. It is anticipated that these fees will be no less than $15,000. The second claim will be the attorney's fees owed to James Cross, the Subchapter V trustee. It is anticipated that these fees will be no less than $9,000.

b. Treatment of Class 1

These claims will be paid will be paid on the effective date with a lump sum payment. payment with any unpaid remainder paid through monthly pro rata share of the funds paid into the Debtor's Plan, concurrently pro rata with payment of priority claims, and prior to any payments to secured tax claim and the general unsecured claims

Class 2 - Internal Revenue Service Civil Tax Claims

a. Nature of Claim:

Per its proof of claim IRS has a secured claim for $170,414.37, a priority claim of $1,482,757.23, and an unsecured claim of $788,917.57.

b. Treatment of Class 2

Debtor will file an Offer in Compromise with the IRS for all these tax claims The offer amount will be determined by the Offer in Compromise. This amount will be paid over a 2 year period with 4 equal semi-annual payments. The first payment will be due 60 days after the effective date, with subsequent payments being made every 6 months thereafter until paid in full.

Class 3 - Arizona Department of Revenue ("ADOR")

a. Nature of Claim:

Per its proofs of claim ADOR has claims of not less than secured for $1,471.091,priority for $397,751, and general unsecured of $17.50.

b. Treatment of Class 3

Debtor has filed an Offer in Compromise with ADOR for all these tax claims. The offer amount will be determined by the Offer in Compromise. This amount will be paid over a 2 year period with 4 equal semi-annual payments. The first payment will be due 60 days after the effective date, with subsequent payments being made every 6 months thereafter until paid in full.

Class 4 - Glendale Central Plaza

a. Nature of Claim:

This creditor is the landlord for Debtor's business location at 5346 West Glendale Road, Glendale, Arizona . It is owed back rent of $47,166.00.

b. Treatment of Class 4

Debtor will be filing a motion to assume this lease under Section 365(d)(4) which will seek to assume this lease with a prompt cure of the $47,166.00 within the time period negotiated by the parties.

Class 5 - Chandler Mercado Partners

a. Nature of Claim:

This creditor is the landlord for Debtor's business location at 6626 West Camelback, Glendale Arizona.

b. Treatment of Class 5

Debtor will be filing a motion to assume this lease under Section 365(d)(4). This lease is current.

Class 6 - **2404 Spur LLC**

a. Nature of Claim:

This creditor is the landlord for Debtor's business location at 6624 West Camelback, Glendale Arizona. This is Debtor's telemarketing and trucking office.

b. Treatment of Class 6

Debtor will be filing a motion to assume this lease under Section 365(d)(4). This lease is current.

Class 7 - Non-priority general unsecured claims

a. Nature of Claim:

This Class consists of the unsecured debts of Debtor that have allowed claims, having filed a proof of claim by the Bar Date established by the Court and not objected to by Debtors or being listed in Debtor's Schedule F as undisputed

b. Treatment of Class 7 - Impaired:

This class will be paid a pro-rata portion of their claims out from Debtor's semi-annual payment beginning 6 months after Classes 1-5 are paid in full. The payments will be divided pro-rata among all creditors in this class. It is anticipated that these payments will begin in Month 25 of the Plan.

Class 8 - Interest Holders in Debtor

a. Nature of Claim:

The only interest holder in Debtor is Ross Kloeber, who is the 100% shareholder of Debtor.

b. Treatment of Class 8 - Impaired:

Mr. Kloeber shall retain his interest in Debtor and shall provide his ongoing services to Debtor so that it is able to operate and make the payments required under the Plan. He shall not receive any distribution on account of his interest until after all payments are made as is set forth in the Plan. All assets not distributed to creditors pursuant to the Plan, shall be re-vested in Debtor upon confirmation of the Plan, if the Plan confirmation is consensual, or upon closing of the case, if the Plan confirmation is

non-consensual. His annual compensation will continue at $60,000.00 during the term of the Plan.

ARTICLE 3: Allowance and Disallowance of Claims

7.01 **Disputed claims.** A disputed claim is a claim that has not been allowed or disallowed by a final non-appealable order, and as to which a proof of claim has been filed or deemed filed, and the debtor or another party in interest has filed an objection

7.02 **Delay of distribution on a disputed claim.** No distribution will be made on account of a disputed claim unless such claim is allowed by a final non-appealable order. Any proposed distribution on account of such claims shall be held by the trustee or the Debtor pending resolution of the objection.

7.03 **Settlement of disputed claims.** The Debtor will have the power and authority to settle and compromise a disputed claim with court approval after compliance with Rule 9019 of the Federal Rules of Bankruptcy Procedure.

ARTICLE 4: Provisions for Executory Contracts and Unexpired Leases

Debtor has 3 unexpired leases, to Chandler Mercado Partners, Glendale Central Plaza, and Mason Makdesi. Debtor will assume all 3 leases and make arrangements for the cure of any default.

ARTICLE 5: Means for Implementation of the Plan.

Debtor will be making semi annual payments to creditors. Payments to Classes Two and Three (IRS and DOR) will commence once the offers in compromise are accepted. Until such time, Debtor will set aside these payments the DIP account while awaiting acceptance.

ARTICLE 6: General Provisions

10.01 **Definitions and rules of construction.** The definitions and rules of construction set forth in §§101 and 102 of the Code and the provisions of the *Small Business re- organization Act of 2019* shall apply when terms defined or construed in the Code are used in this Plan.

10.02 **Effective Date.** The effective date of this Plan is the first business day of the first day of the month following the date that is 14 days after the entry of the confirmation order. If, however, a stay of the confirmation order is in effect on that date, the effective date will be the first business day of the first day of the month after the date on which the stay expires or is otherwise terminated.

10.03 **Severability.** If any provision in this Plan is determined to be unenforceable, the determination will in no way limit or affect the enforceability and operative effect of any other provision of this Plan.

10.04 **Binding effect.** The rights and obligations of any entity named or referred to in this Plan will be binding upon, and will inure to the benefit of the successors or assigns of such entity.

10.05 **Captions.** The headings contained in this Plan are for convenience of reference only and do not affect the meaning or interpretation of this Plan.

10.06 **Controlling effect.** Unless a rule of law or procedure is supplied by federal law (including the Code or the Federal Rules of Bankruptcy Procedure), the laws of the State of Arizona govern this Plan and any agreements, documents, and instruments executed in connection with this Plan, except as otherwise provided in this Plan.

10.07 **Retention of Jurisdiction.** The Bankruptcy Court shall retain jurisdiction of this case pursuant to the provisions of the Bankruptcy Code, including the final allowance or disallowance of all Claims affected by the Plan, and to make such orders as are necessary or appropriate to carry out the provisions of this Plan.

ARTICLE 7: Discharge

If the Plan is confirmed under §1191(a), on the effective date of the Plan, the Debtor will be discharged from any debt that arose before confirmation of this Plan, to the extent specified in §1141 (d)(1)(A) of the Code. The Debtor will not be discharged from any debt:

(i) imposed by this Plan; or

(ii) excepted from discharge under§ 523(a) of the Code, except as provided in Rule 4007(c) of the Federal Rules of Bankruptcy Procedure.

If the Plan is confirmed under §1191(b), confirmation of the Plan does not discharge any debt provided for in this Plan until the court grants a discharge on completion of all payments due within the first 5 years of this Plan, or as otherwise provided in §1192 of the Code. The Debtor will not be discharged from any debt:

(i) on which the last payment is due after the first 3 years of the plan, or as otherwise provided in §1192; or

(ii) excepted from discharge under §523(a) of the Code, except as provided in Rule 4007(c) of the Federal Rules of Bankruptcy Procedure.

DATED this 4th day of November, 2021.

HAROLD E. CAMPBELL P.C.

By *\/s/ Harold E. Campbell* (#005160)
Harold E. Campbell
Attorney for Debtor

Approved as to Form and Content By:

Ross Kloeber, President of Debtor

Original filed ECF and copy
delivered via email this
4th day of November, 2021 to:

Office of the US Trustee
230 N. 1st Avenue, Suite 204
Phoenix, AZ 85003-1706
USTPRegion14.PX.EXF@USDOJ.GOV

James Cross
Cross Law Firm
PO Box 45469
Phoenix, AZ 85064
jcross@crosslawaz.com

By *\/s/ Debi L. Harwood*